A6910-1

National Association of Purchasing Management

Report On Business®

November 3, 1986
Volume 4, Number 11

Purchasing Index Off Slightly

New Orders & Production Increases Slow

Price Increases Continue

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

October Report

(Please note that last month's Report was entitled incorrectly. The Report released on October 6, 1986, was the September Report.)

The economy continued to expand in October but at a slower pace than last month, say the nation's purchasing managers in their latest **Report on Business**. Production levels are still expanding but not at the rate of the previous two months. New orders increased again but at a greatly reduced rate. Inventories declined for the fourth consecutive month. Employment was also reported lower. For the second consecutive month, more purchasers continued to report higher rather than lower prices.

The report was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of purchasing and distribution, Pitney Bowes, Inc. Mr. Bretz said, "As the economy entered the fourth quarter, the expansion noted in the previous two months slowed. However, production was higher and the modest increase in new orders suggest continued favorable production levels for November."

The **Purchasing Managers' Composite Index** declined to 51.9%, down from 53.2% in September. While dropping this month, October marks the third consecutive month this leading indicator has been over 50% and the seventh time in 1986. A reading above 50% generally indicates that the economy is in an expanding phase: below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

In spite of the healthy production level, members continued to report lower employment levels. In October almost four times as many members reported lower employment (22%) compared to higher (6%).

Employment %	Higher	Same	Lower	Net Differ.
October	6	72	22	−16
September	13	60	27	−14
August	11	66	23	−12

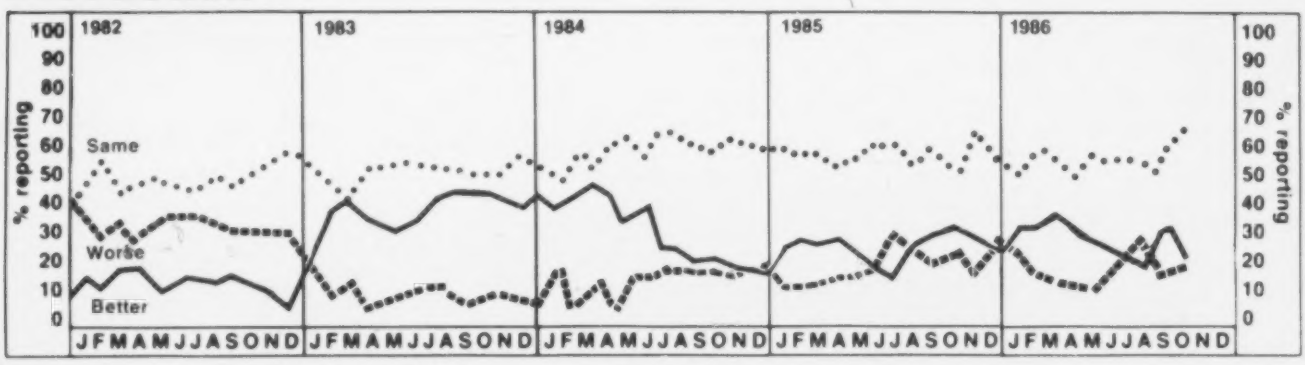
Buying Policy

The healthy production level, reduced inventory level, and somewhat slower vendor deliveries appears to have lengthened lead times slightly. Lead times for production materials increased as 55% of members reported lead times of 30 days or less, down from 57% in September and the lowest since March 1985 (also 55%). Lead times of 30 days or less for maintenance, repair, and operating (MRO) supplies increased to 89%, the highest total since May 1986 (90%). This increase indicates a slightly shorter lead time in this category. After two consecutive months of increasing lead times for capital expenditures, lead times decreased somewhat in October. Lead times for capital expenditures in the six months or longer category declined to 57%, down from 60% in September and 58% in August.

	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
Production Materials %					
October	17	38	24	14	7
September	18	39	23	14	6
August	15	45	24	11	5
MRO Supplies %					
October	45	44	7	3	1
September	44	43	6	7	0
August	45	42	6	7	0
Capital Expenditures %					
October	14	3	8	18	57
September	16	3	7	14	60
August	10	4	10	18	58

© 1986—National Association of Purchasing Management, Inc., P.O. Box 418, Oradell, NJ 07649-0418 (201) 967-8585. Issued 12 times a year to N.A.P.M. members; additional subscriptions to members, $50; nonmembers, $100 per year. Outside the U.S., Canada and Mexico, add $25.00.

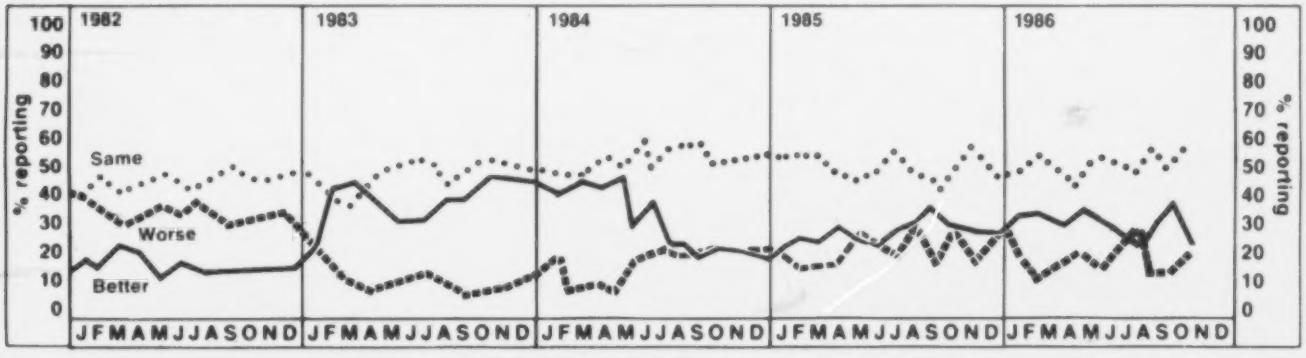
Production



Production levels improved in October but not at the same pace as September. The number of members reporting better production slipped to 20% from 27%.

Production %	Better	Same	Worse	Net
October	20	65	15	+ 5
September	27	60	13	+14
August	27	54	19	+ 8

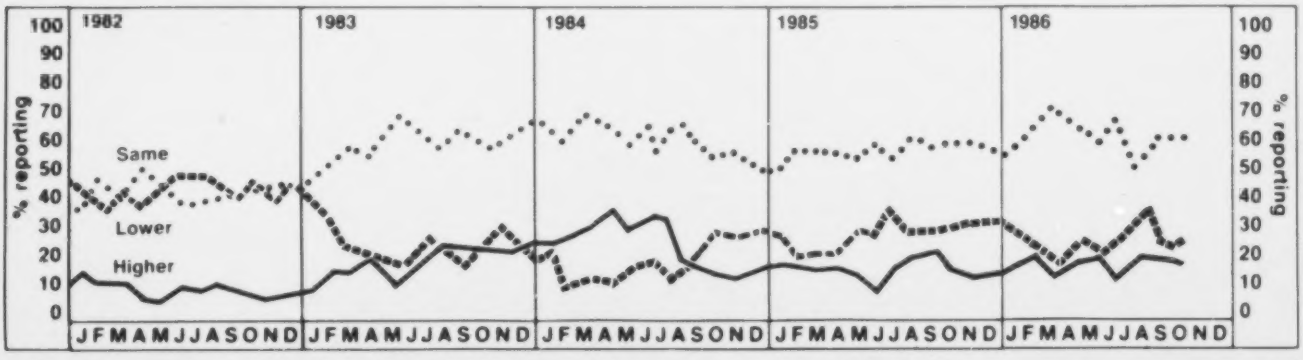
New Orders



New orders expanded for the third consecutive month but at a considerably slower rate than the previous two months. The net difference between those reporting better new orders (22%) and those reporting worse (20%) was only a net +2, compared to the exceptionally large net +20 in September. Nevertheless, the increase does signal that production levels for November should be healthy.

New Orders %	Better	Same	Worse	Net
October	22	58	20	+ 2
September	35	50	15	+20
August	28	57	15	+13

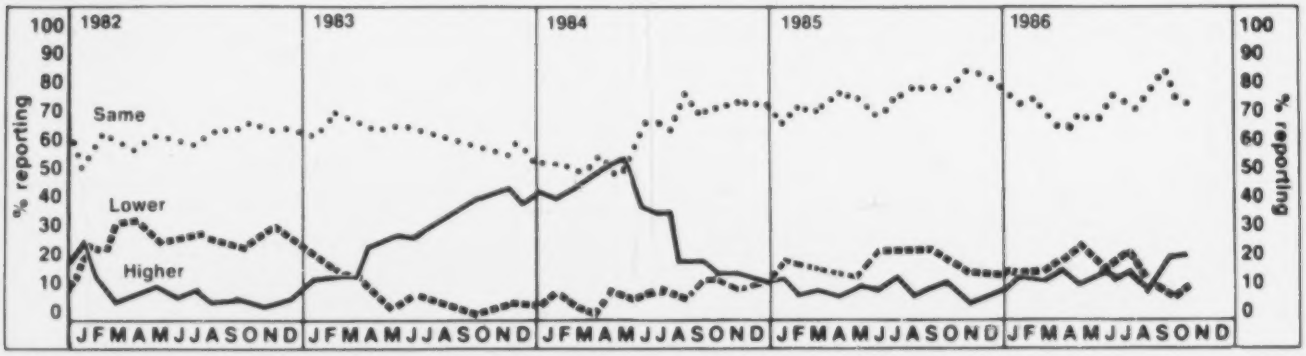
Inventories



Once again inventories declined. October is the 26th consecutive month that more members have reported inventories as lower rather than higher. Typically, manufacturers attempt to trim their inventories for the end of the year.

Inventories %	Higher	Same	Lower	Net
October	17	58	25	– 8
September	18	58	24	– 6
August	17	50	33	–16

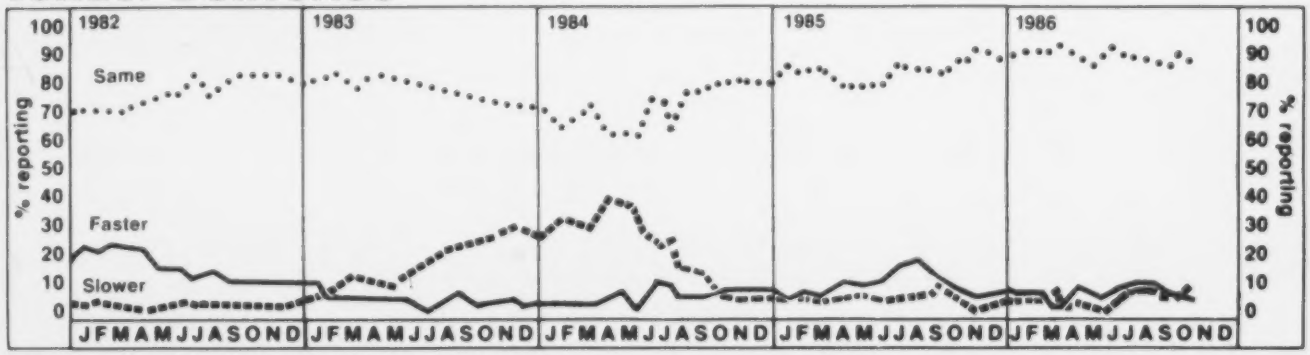
Prices



Prices are rising. For the second consecutive month members reporting higher prices exceeded those reporting lower prices by a ratio of nearly three to one. The 20% reporting higher prices is the most to do so since July 1984 (31%).

Prices %	Higher	Same	Lower	Net
October	20	73	7	+13
September	19	75	6	+13
August	9	81	10	− 1

Vendor Deliveries



The speed of vendor deliveries slowed in October, indicating manufacturers were beginning to find it slightly more difficult to meet purchasers' requested shipping dates. The 8% reporting slower deliveries was the highest since September 1985 (9%).

Vendor Deliveries %	Faster	Same	Slower	Net
October	6	86	8	− 2
September	5	90	5	0
August	7	87	6	+ 1

Specific Commodity Changes

Titanium dioxide was reported in short supply for the seventh time in the past eight months. However, it continues to be the only item reported in short supply in the last 21 months. Corrugated shipping containers were reported higher in price for the seventh consecutive month. Kraft paper and miscellaneous paper products (used in packaging and wood pulp) were also reported higher in price. Caustic soda prices were reported higher for the second consecutive month. Fuel oil, which was reported higher in price in September, was lower in October. Gasoline and coal prices were also reported lower as were industrial alcohols.

UP in Price: Corrugated shipping containers, kraft paper, paper products, wood pulp (used in paper making), caustic soda (used heavily in paper making and petroleum refining), polyethylene resin (used heavily in making plastic products), steel (particularly sheets and plates), and a variety of precious metals

DOWN in Price: Fuel oil, gasoline, coal, and industrial alcohols

In SHORT Supply: Titanium dioxide (a lead-free pigment used heavily as a whitener in coatings and other industrial applications)

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available Dec. 1, 1986.

Commodity Reports

Packaging and Containers

Prepared by the N.A.P.M. Packaging and Containers Committee; chairman, Carl D. Dirkse, C.P.M., Johnson Wax, Racine, WI.

Metal Cans

The supply for metal cans is adequate and prices are stable. The big news is the purchase of American Can by Triangle Industries, which previously purchased National Can. At the time of this writing, USX is still on strike and there is increasing concern about the availability of steel.

Fibre Cans

The supply for fibre cans is adequate to surplus, and prices are stable to weak. Some price decreases are noted, however there is some concern that prices will go up due to increasing linerboard prices. There is surplus capacity due to users switching to plastic.

Glass

The availability of glass is still fairly tight and industry prices are stable. Plastic has been strong for one ounce liquor bottles, whether it can make a significant impact in the glass market of full size liquor bottles remains to be seen.

Molded Plastics

The supply for molded plastics appears to be adequate. Reports on pricing are mixed — some members report increases while others report decreases. Therefore, resin manufacturers are running at high operating rates, which is putting some pressure on prices. The reaction is mixed as to whether manufacturers will be able to make price increases stick.

Films

The supply and demand for films are pretty much in balance. Attempts are being made to increase film prices due to the strengthening resin market. However, time will tell if any price increases will become a reality.

Laminated Stock

The supply of laminated stock is adequate and prices are stable. Lead times on aluminum foil are lengthening.

Metal Drums

The supply of metal drums has been a buyer's market for a long time and little has changed. There is surplus capacity and consequently sellers are unable to increase prices.

Fibre Drums

Fibre drums is another stable market. There is plenty of capacity with no movement in prices.

Folding Cartons

The folding cartons market has changed dramatically. For months we have reported surplus capacity and weak prices. Now, however, board prices have increased and folding carton buyers are experiencing higher prices. Supply is also getting tight and lead times are lengthening.

Corrugated

The corrugated linerboard mills are running near capacity due to strong domestic and foreign demand, consequently, spot shortages are cropping up. The increase to $320/ton seems to have taken hold. The mills are now trying to increase the price to $350/ton. Of course, converters are attempting to pass these increases on to users, with a fair amount of success. Forecasting prices and availability for 1987 is difficult, because corrugated is so sensitive to supply and demand.

Bags

Generally the bag supply is adequate, but prices are firming due to stronger paper prices. The competition between paper and plastic for the grocery bag market continues.

Paper Products

Prepared by the N.A.P.M. Paper Committee; chairman, Glenn Farber, C.P.M., Vanier Graphics Corporation, Santee, CA.

Newsprint

Newsprint is currently readily available and anticipated to remain available for the near term. The next major capacity addition is scheduled in Quebec in the fall of 1987 and will add 200,000 metric tons per year. Inventory is building but most likely this is a temporary situation caused by the announced price increase for October 1st. Some sources feel that the approximate 6.5% price increase may slide somewhat and not become fully effective until early 1987. No additional increases are expected in the near term.

Uncoated Groundwood

Uncoated groundwood is fairly available. It is expected that it will remain available in the near term with added competition from Canadian suppliers. The projection is that uncoated groundwood demand should increase by about 3% in 1986 and all of this increase will be met by imported paper. This increased demand should continue in 1987 and 1988, especially in the supercalendered papers and groundwood forms bonds. Additional capacity is slated for late 1987, and deliveries are running 6 to 8 weeks. Inventories are stable with some decreases reported. Prices for some supercalendered papers could decline due to the pressure from coated groundwood. On the other hand, some upward pressure could be applied to the lower grades following a successful newsprint increase. This is the high season for demand of this grade in anticipation of the holiday season advertising.

Coated Groundwood

(We will now start reporting on coated groundwood separately. Previously it had been included with coated papers.) This is a grade which consists of at least 10% mechanical pulp in the basestock. The majority of this grade is a "number five" class. This particular commodity has fallen off in domestic production primarily due to an abundance of imports. Capacity in 1985 rose 3.7%. However, shipments have declined and thus, the operating rate for this grade is in the 87% to 89% range. There have been price reductions and further reductions could be coming due to additional capacity starting up shortly. The more attractive pricing might increase demand through 1987 and 1988. Inventories are at minimal levels so any growth of the economy would quickly aid the producing mills.

Uncoated Free Sheet

Uncoated free sheet still remains the "Shining Star" of the paper industry. Production through July is running 8.3% ahead of 1985. Some grades remain on a reservation or loosely enforced allocation program. Additional capacity of 440,000 tons will be starting up late this year or early 1987 with the full effect felt next year. Imports are running at an annualized rate of approximately 450,000 tons. Recent price increases announced for August 1st will likely be fully implemented by October 1st. The longer term outlook for this grade is still somewhat alarming since there is only one expansion each in 1988 and 1989 and both of these are in Canada. Deliveries remain fairly steady at approximately four weeks. Form bond grades still lead the pack in this commodity with tonnage shipped up 14.5% over last year. On the other hand, carbon tissue has declined some 9% but has just announced its third price increase for this year.

Coated Free Sheet

This particular grade is primarily used by commercial printers and their strength has held up a little better than the magazine printers. There is still excess capacity in this grade and prices are declining. Prices will likely stabilize shortly and should remain stable until demand catches up with capacity. Deliveries are running at about four weeks. In addition, products are readily available and are anticipated to remain available. Inventories are stable.

Bleached Bristol

This product is experiencing stable deliveries but some temporary near-term delays are expected due to certain machine shutdowns. Deliveries are running from 3 to 6 weeks. Inventories are currently decreasing. Prices have increased approximately 6.6% since the start of 1986.

Paperboard/Linerboard

All grades of paperboard/linerboard are experiencing strong demand. Unbleached kraft paperboard, solid bleached paperboard, and recycled board are all up in tonnage 6% to 10% from 1985. The linerboard production has also remained strong even though inventories at box plants have been reduced dramatically. Linerboard is a strong export commodity, and exports have increased 14% from last year. Delivery of some grades are tight and lead times are extending. Prices have increased and more increases are expected early in 1987. With a 7.2% gain in production from 1985 to 1986, along with the unknown future escalation of exports, this commodity warrants close watching.

Pulp

World-wide inventories and shipments increased for pulp in August. There appears to be adequate capacity to meet foreseeable demand. Prices have been increasing almost on a quarterly basis and most likely there will be another increase attempted early in 1987. However, prices are just now approaching the 1984 levels. Production has increased primarily on the bleached, semi-bleached, and unbleached sulfate grades by about 5.5% compared to 1985. The industry operating rate is currently at 95%.